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NEW LOOK
AT
TRANSPORTATION
POLICY



Significance to
Agriculture of the
Royal Commission
Report

- E. P. REID -



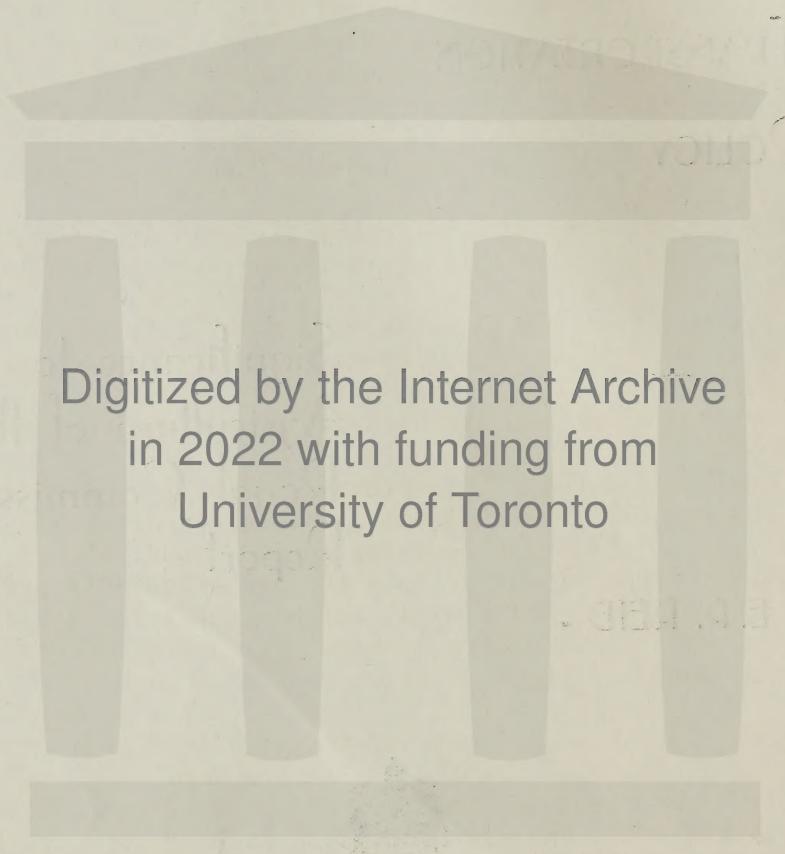
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DEPARTMENT OF AGRICULTURE

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NEW LOOK AT TRANSPORTATION POLICY

Significance to Agriculture of the Royal Commission Report

E.P. Reid 1/

Few of the findings and recommendations of the Royal Commission on Transportation were concerned especially with agricultural matters but, since transport facilities and costs are of such vital importance to agriculture, the Report 2/ is generally of great interest to those concerned with farm production and marketing.

The terms of reference guiding the Commission's work may be summarized as follows:

1) Economic, geographic or other disadvantages, in respect of transportation, under which certain sections of the country find themselves;

2) Review of the Railway Act with respect to guidance to the Board of Transport Commissioners in general rate revisions, competitive rates, international and other rates;

3) Capital structure of the Canadian National Railway Company;

4) Desirability of more uniformity in railway accounting;

5) The Canadian National-Canadian Pacific Act, 1933, and the extent of co-operative measures adopted under it;

6) Any feature of the Railway Act and other acts pertaining to transportation which might advantageously be revised;

7) All matters which the members may consider pertinent to the general scope of the inquiry.

Since only the governments of the provinces west of Ontario and east of Quebec made submissions to the Commission or appearances before the Transport Board in the general rates cases between 1946 and 1951, and since only the same governments had asked for the Royal Commission, the geographic and regional aspects were important throughout in the problems submitted to the Commission. Furthermore, since primary industries, especially agriculture, are characteristic of the economies of the

1/ Agricultural Economist, Economics Division, Canada Department of Agriculture, Ottawa.

2/ Report of the Royal Commission on Transportation, W.F.A. Turgeon, Chairman, Ottawa, February 9, 1951.

provinces away from central Canada, the pervasive interest of agriculture in the findings of the Commission is evident.

Crowsnest Pass Rates on Grain from Prairie Points.— One of the main recommendations of the Commission which pertains to agricultural products in particular is in respect of the Crowsnest Pass rates on grain and grain products moving from Prairie points to the Lakehead, to Pacific ports for export, and to Churchill. The core of these rates is a statutory provision, which originated in 1897 and took its present form in 1925, fixing the level in cents per 100 pounds of such grain rates to Fort William—Port Arthur. The extension of this system of grain rates has come about by action of the railways and of the Transport Board. The Commission designates Crowsnest rates as one of two principal statutory (non-physical ^{1/}) components of Canada's national transportation policy. The other is the Maritime Freight Rates Act, 1927. Other pillars of the policy are mainly measures for provision of specific transport lines and facilities, and also for general regulation of transport charges and services.

Crowsnest rates were set in 1897 at a level 3 cents per 100 pounds lower than the then-prevailing rates on grain and flour from existing Prairie stations, all Canadian Pacific, to Fort William. This scale applied until 1903, briefly in 1918, and from 1922 until the present. From 1903 to 1918 a slightly lower scale was forced on the Canadian Pacific by Canadian Northern competition. From 1918 to 1922 various increases above the Crowsnest level were permitted by action under the War Measures Act and by statute having temporary effect. A 1925 amendment to the Railway Act extended the Crowsnest scale to all Prairie stations on all railways, not just those already open in 1897, as the Canadian Pacific had been inclined to contend. The amendment also made these grain and flour rates explicitly not subject to the Board of Transport Commissioners.

The 1897 agreement in which the rates had their origin was

1/ Important railway lines and ferry services were provided for in the terms of Confederation of Nova Scotia and New Brunswick (Intercolonial Railway); British Columbia (Canadian Pacific Railway); Prince Edward Island (car ferry); and Newfoundland (railway and ferry entrusted to C.N.R.).

associated with a subsidy which the Federal Government paid to the Canadian Pacific for the line it was building from Lethbridge, Alberta, through the Crowsnest Pass to Nelson, British Columbia, in the Kootenay mining and lumbering country. The railway also granted reduction on westbound rates from eastern Canada to western Canada on farming and building supplies and fruits. These rates were increased during the World War I inflation, and the Company fought them with some vigour 1922-25, in which latter year the action of Parliament fixing the grain rates was accompanied by release of the Company from its undertaking in respect of the westbound rates, which have since been subject to the Transport Board.

In 1927, an order of the Transport Board extended the Crowsnest rates to export shipments to Pacific ports and to Armstrong, the Canadian National mainline point corresponding to Fort William. The application of the rates to shipments to Churchill was an action of the Canadian National. The extension to grain by-products other than flour was also a railway decision.

Apart from their wider application at times in the 1920's Crowsnest rates have prevailed at their fixed level for the last 29 years. During this period, until April 1948, the general level of all freight rates was constant and the Crowsnest rates were not contentious. With the discussion and implementation of general rate increases since 1946, the Crowsnest group of rates has again been given attention, particularly before the Royal Commission.

The Commission reports that it heard approval of Crowsnest rates from agrarian spokesmen, both western and national, from the governments of the Prairie Provinces and of New Brunswick, from some western chambers of commerce and from one of the national labour congresses. Besides the Canadian Pacific, a number of British Columbia interests and the Canadian Industrial Traffic League opposed the retention by statute of the Crowsnest Pass rates.

It is estimated by the Commission that the statutory grain rates situation has had the effect of increasing the general increases since 1948 by 6½ per cent; that is, if crowsnest rates traffic had been subject to increases in the same way as other traffic, only 38½ per cent of general increase over the early

1948 level of rates, instead of 45 per cent, would have been necessary to produce the additional revenue the Transport Board judged to be necessary for the Canadian Pacific, the yardstick carrier. It is in this sense that the Commission is able to quote the Canadian Pacific as stating that the burden of the Crowsnest rates is on shippers of other commodities, not on the railways.

The Commission quotes the Canadian Pacific also as having stated that Crowsnest rates are non-compensatory -- do not cover the cost of providing the service. But it feels that even the expenditure of much time and money to test the accuracy of this assertion would provide an unsatisfactory or inconclusive result. The Commission finds that the argument that Crowsnest rates, in the sense of their exemption from general rate increases, cast an unfair burden on shippers of other commodities is not well founded. Western shippers in general are interested in maintenance of Crowsnest rates. Maritime shippers are fairly well satisfied with the special treatment they enjoy under the Maritime Freight Rates Act. Shippers in central Canada are in a most advantageous position, in comparison with those of the West, because of competitive truck and water rates.

The conclusion which commends itself to the Commission was "that the time has not come for Parliament to divest itself of the immediate control of these rates which it assumed in 1897." It adds that neither it nor any party appearing before it says "that the present level of the rates must never be changed."

Maritime Freight Rates Act, 1927. - This Act was passed following a recommendation of the Duncan Royal Commission on Maritime Claims, which reported in 1926. Together with Crowsnest pass rates, the Act is a principal statutory rate provision of a regional character in the national transportation policy. It provides for a 20 per cent reduction in rates and on rail freight traffic 1) moving within the Maritime Provinces and eastern Quebec; 2) moving outward from such Eastern lines westward to points in Canada; and 3) moving from points on Eastern Lines to Maritime ports for export overseas. In the case of items 2 and 3, the 20 per cent reduction applies on the Eastern lines proportion of the rate. All inbound traffic, whether from central or western Canada, from the United States, or from overseas is excluded from preferred movements, as is also outward traffic to the United States.

The difference between "normal" tolls -- those in effect on July 1, 1927 -- and those established under the Act is paid by the Government to the railways from moneys appropriated by Parliament. The provisions of the Act were, from April 1, 1949, made applicable to the Newfoundland Railway including the steamship service connecting it to Nova Scotia.

Thus, the agricultural products of the Maritimes moving to Canadian and overseas markets benefit from the Act. In this respect it resembles the Crowsnest Pass rates. The two measures differ in that the Maritime Act allows rates on preferred traffic to be varied with other rates in a general rates case to meet increases or reductions in cost of railway operations, provided that the 20 per cent preference be maintained; Crowsnest rates are fixed in the Railway Act. 1/

The Commission heard representations from eastern spokesmen requesting consideration of proposals to restore the intent of the Act where it was deemed to have for various reasons been weakened in its effect. An example was in respect of sundry granting of truck-competitive rates in central Canada, which were not matched by any adjustment in Maritime tolls. The Commission's judgment is that Maritime producers are not prejudicially affected by such truck-competitive rates since, if the rates were not granted, the producers in central Canada could still transport their goods by truck.

In respect of representations for extensions of the subsidy provisions of the Act or reduction in the tolls authorized, the Commission finds that the principle enunciated by the Duncan Commission in 1926, having largely a historical base, was substantially implemented in the Act as written and administered. Accordingly, no major amendment is recommended.

Equalization. - A principal recommendation of the Commission is the equalization, to a large extent, of the rate scales of the various regions of the country. This proposal is related to both 1) economic and geographical disadvantages of sections of Canada and 2) rate making and regulating policy. The Commission finds that the general principle of equalization is now accepted. In this connection, reference is made to

testimony before the Commission and the directive from the Government to the Board of Transport Commissioners in April 1948 that it should conduct a rate investigation with equalization in view.

Categories of rates readily susceptible of equalization throughout Canada are designated as 1) the class rate scale; 2) commodity mileage scales; 3) many commodity tariffs; 4) the taper feature of certain rates and scales of rates, which differ now as between East and West; 5) the carload mixing rule. Exceptions will probably have to be 1) international rates; 2) import and export rates associated with ports long accepted as competitive with certain U.S. ports; 3) competitive rates; 4) rates on some small railways.

Some amendment of the Railway Act is required to enable the Transport Board to administer an equalized rate system. The Crowsnest Pass rates and the Maritime Freight Rates Act will make for specific departures from uniform equalization.

General, or Revenue, Rates Cases.— The Transport Board and the Railways are criticized by the Commission for having implemented the general increases of 1948-50 by application of uniform percentage increases with no hold-downs on long hauls, other than for coal. The competitive position of producers at various distances from a market is associated with the differential in cents per 100 pounds of their freight charges. A percentage increase accentuates the differential and alters the competition materially in favour of the nearer suppliers. The Interstate Commerce Commission has required hold-downs for various basic commodities in its general rates decisions for the United States during the same post-war period, though the formula has otherwise been a percentage one.

The necessary data for appropriate treatment of various commodities usually shipped long distances, as well as short, may not heretofore have been available, but the railways should utilize new statistical procedures to provide the information, and it ought to be the duty of the Board to see that they do so, the Royal Commission Report states.

The Canadian railways in their general 15 per cent rate increase application submitted in April 1951, after the publication of the Report of the Royal Commission, included the feature of hold-downs or maximum specific limitations of increase for the

following commodities: livestock, fresh apples, lumber, pulpwood, fuelwood, sand, gravel and stone.

The East-West Rail Link.— The Commission acknowledges the economic "bridge" character of the two railway mainlines through northern Ontario. They are links between two otherwise separate "areas of civilization". The analogy of the toll-free canals in central Canada is adduced in recommending a federal subsidy to the railways to cover the whole cost of maintaining -- not operating -- the bridge. The trackage between Sudbury and Fort William is designated as constituting the bridge on the Canadian Pacific. A corresponding extent -- of about 550 miles -- on the Canadian National should also be provided for, says the Commission. The estimated cost to the treasury is \$7,000,000 a year.

The benefit to shippers and consumers is intended to be realized in the level of rates on shipments from eastern to western Canada. "The Crowsnest Pass rates structure," observes the Report, "provides to a considerable extent, although of course not altogether, for the requirements of traffic eastbound."

National Transportation Policy.— The preservation of the identities of both the government-owned Canadian National Railways and the privately-owned Canadian Pacific Railway is endorsed.

After noting the vital role of the provincial governments in highway traffic regulation, particularly intraprovincial traffic, the Commission recommends co-ordinated or unified regulation by the Federal Government of railways, waterways, airways, pipelines and highways to the extent of federal authority. To this end, the amalgamation of the Board of Transport Commissioners, the Air Transport Board and the Canadian Maritime Commission is recommended in order to permit the application to all transportation agencies of like principles of regulation, and to facilitate evolution of a rational transportation structure for the nation.

Other Recommendations.— The Commission accepted to a limited degree the submission of the Canadian National that its capital structure should be altered to permit comparability with other major railways. Coupled with recommendations that securities of one kind should be exchanged for other kinds, is one that the Company should be reimbursed annually by the Federal Government for the operating losses of the Newfoundland Railway and steamship services.

The Commission recommends considerably more uniformity in railway accounting, particularly in respect of depreciation. This would facilitate rate decisions by the Transport Board, as well as assist the railways and the public in judging railway performance.

The Canadian National-Canadian Pacific Act is a depression-born measure intended to encourage co-operation between the two large systems to cut their expenses at a time when checking the decline in revenues appeared futile. The Commission notes the small volume of activity under the Act, the lack of any authority to require actions under it and the fact that it was never noted as a measure to relieve shippers through lower rates. It was notably dormant during the war. Continuance of the Act, for what it may be worth, with only minor amendment, is recommended.

The Commissioners.— The Report is unanimous from the three commissioners, Chairman W.F.A. Turgeon and Professors H.F. Angus and H.A. Innis. However, the latter two append personal statements: "Reservations and Observations" by Dr. Angus and "Memorandum on Transportation" by Dr. Innis. The former deals with some knotty problems in the labour relations field (not reviewed in this article). Dr. Angus also comments on the Report throughout to give it shadings or elaborations from his point of view. Dr. Innis uses the technique of the economic historian. He treats the factor of competition in the framework of imperfect competition theory and its implications for policies of operation, service and rates.

The Minister of Transport has stated in the House of Commons that the Government is drafting legislation to implement many recommendations of the Royal Commission, and that some of the measures may be introduced at the 1951 session.

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